HOUSING MARKET OUTLOOK

Victoria CMA

Canada Mortgage and Housing Corporation

Date Released: Second Quarter 2008

The Outlook

- ***New home starts will trend down to historical average***
- ***Resale home sales expected to dip***
- ***New and resale home prices to rise moderately***
- ***Rental vacancies will remain low***

RESALE MARKET

Softening of Resale Market

Buyer demand will soften over the next two years and the supply of listings will increase. For each of the next two years, at least 4,200 single-family units and 2,500 multi-family units will be exchanged on the resale market, a slight decline relative to 2007. While buyer demand is expected to trend lower, the sales forecast for 2008 and 2009 is on par with the historical 15 year average.

Figure 1

MLS® House Sales by Market

1st Quarter 2008, Metro Victoria

	Median House Price	Average Days to Sell	Median Size Sq. Ft.
Victoria City	$525,000	39	1,793
Oak Bay	$810,000	56	2,442
Esquimalt	$495,500	31	1,968
Saanich East	$583,500	33	2,205
Saanich West	$510,000	31	1,948
Central Saanich	$550,000	58	2,280
North Saanich	$808,750	72	3,000
Sidney	$459,900	51	1,610
West Shore	$459,000	49	2,026

Source: Victoria Real Estate Board, CMHC Victoria

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The forecast of a more balanced resale market is consistent with how the market performed in the first quarter of 2008, when total sales declined by 12 per cent and the supply of listings increased relative to last year. The sales-to-active listings ratio, a barometer of home demand and supply, has dropped and is approaching balanced market territory. As more listings become available, the average MLS®[1] price is expected grow at a more moderate pace, at seven per cent and four per cent, in 2008 and 2009 respectively.

Victoria Single Family Home Sales Expected to Ease

Single family home sales will moderate over the next 18 months. In the first quarter of 2008, single-family home sales trended down compared to the first quarter of last year. This reflects sales stabilizing. In terms of specific markets, Victoria City and the West Shore contributed to the bulk of the decline in first quarter single-family home sales. As the overall demand for single-family homes, lower demand in these specific sub-markets comes after considerable growth in 2007.

Look for the supply of single detached homes to trend higher. The number of active Metro Victoria single-family listings in March jumped slightly relative to March of last year. This reflects weaker first quarter sales, and high resale prices attracting sellers interested in cashing in on home equity gains. Prices continue to climb, rising 12 per cent so far in 2008. Single detached home prices will grow in 2008 and 2009, but at a slower pace than in previous years.

Victoria Condominium Sales Returning to Historical Average

Victoria condominium (townhouses and apartment condominiums) sales have fallen thus far in 2008 relative to 2007, and the decline is expected to continue. Much of the decline in condominium sales can be attributed to higher prices. While sales are forecast to dip further, the annual levels will remain close the historical average. Condominium demand has been very strong in recent years (2003-2007).

Contrasting the outlook for sales, condominium supply, measured by MLS® listings, will increase as some sellers look to take advantage of the equity build up stemming from strong price growth over the past few years. Continued construction has driven up the supply of condominium units in Metro Victoria, and the large number of units currently under construction will maintain supply in the short-term.

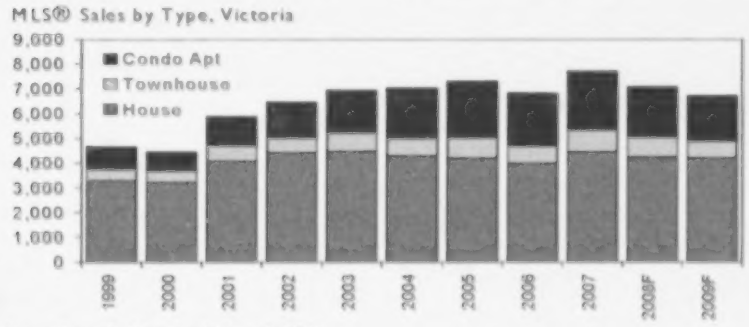
Townhouses: Over the first quarter of 2008, townhouse sales remained relatively stable, while the number of active listings and the average price climbed dramatically – 42 per cent and 16 per cent, respectively. Stable demand and rising supply will cause the pace of townhouse price growth to slow in the short-term. The average Metro Victoria townhouse price is forecast to surpass $450,000 in 2009.

Apartment Condominiums: After several years of high sales volumes, MLS® apartment sales are forecast to slow over the remainder of 2008 and in 2009. Moderating demand and the climbing average price of apartment condominiums in Victoria contributed to a first quarter drop in sales. Active listings were up 42 per cent relative to the first quarter of 2007, and there were nearly seven months of apartment condominium supply on the market at the end of March. 2008 apartment condominium supply is at its highest level since 2001.

The average apartment condominium price has increased nine per cent thus far in 2008. This reflects a larger proportion of higher-end suite sales. The average apartment condominium price is expected to increase slightly to $350,000 in 2009.

Figure 2

Victoria Home Sales Expected to Ease



NEW HOME MARKET

New home construction to fall in 2008

After a six per cent decline in Metro Victoria new home construction in 2007 from historically high levels, the downtrend is expected to continue. Much of the projected decline in total new home starts will be attributed to the weaker demand for multiple-family homes.

Single-detached construction to remain stable

Single-detached new home starts will surpass 800 units both this year and next. While the forecast for single-family starts will be below the average number of starts recorded between 2003 and 2006, it remains close to the historical average over the past ten years.

The demand for single-family new homes in Victoria will be driven by moderate population and employment growth, and favorable mortgage rates. While positive socio-economic conditions will drive short-term demand for single-family new homes, it will be tempered by rising resale and new home prices.

The inventory of completed, unsold new single-family homes fell in the first quarter relative to 2007 (year-over-year). There should be a continued flow of new houses on the market as there are a large number of units currently under construction in Victoria.

The West Shore markets, and in particular Langford, will continue to lead the Metro Victoria region in new single-family home construction. Over the first quarter of 2008, West Shore markets (Colwood, Highlands, Langford, Metchosin, Sooke, and View Royal) accounted for roughly two-thirds of single-family home construction in Victoria (both new starts and the number of units under construction).

House Prices Continue To Grow

The average price of a new Victoria single-family home is forecast to climb 11 per cent this year and another four per cent in 2009. The projected short-term growth is more modest than that achieved in 2007, and reflective of the more balanced resale market conditions. Continued price growth can be tied to increasing building and land costs.

In addition to Langford accounting for a large share of Metro Victoria single-family home construction (new starts and units under construction), the district also has experienced the highest upward movement in new house prices (23% in the first quarter). Product mix has been a large contributor to the rising prices, as relatively more higher-end single-family homes are being absorbed in Langford.

Dip In Multiple-Family Construction Expected

Multiple-family starts are forecast to fall in excess of 20 per cent in both 2008 and 2009, in line with the 23 per cent decline experienced in the first quarter of 2008 (relative to 2007). The forecast decline can be attributed to numerous factors, including slowing resale market demand, a large inventory of new and resale multi-family homes, a high number of units currently under construction, and rising prices. Essentially, the Victoria multi-family market for new homes is regulating itself, as less building in 2008 and 2009 will help avoid oversupply.

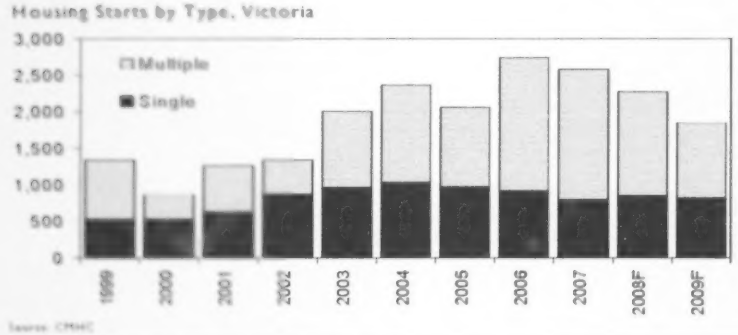
Apartment Condominium Prices Set To Increase

The added flexibility that apartment condominium living offers, in combination with rising construction costs, have led to the rapid increase in new condominium prices. Growth in new condominium prices have shown some fluctuation from year to year due to product mix (i.e. higher end units versus more reasonably priced units), but have generally trended up as builders target move-up buyers with more luxurious suites.

The average price of a new apartment condominium in Victoria will continue to rise in both 2008 and 2009, but at a more moderate pace than in recent years. Slower growth can be attributed to

Figure 3

Multi-Family Home Construction Dips



weakening demand and the supply of active listings in the resale market reaching a 13 year high in March. The average new two-bedroom apartment condominium price is expected to reach $550,000 in 2008, which represents a slight jump from the average price of all absorbed two-bedroom apartment condominiums in 2007.

ECONOMY

Capital Region Economy Will Maintain Stable Growth

The B.C. economy is forecast to grow at a slightly slower pace in 2008 and 2009 than it did in 2007. Due to a slowdown in the services sector, economic growth in Victoria is projected to ease to 2.7 per cent in 2008.[2] After three straight years of strong employment growth, short-term job growth will moderate as key sectors of the economy adjust to weaker U.S. demand. More jobs will be added to the region's employment base in key industries, including: construction, education, health care, and government.

Despite an easing of economic and employment conditions, these two key drivers will continue to grow Victoria housing demand through 2008 and 2009. Also, a tight labour market with low unemployment (3.2% in the first quarter of 2008) will keep wages and incomes rising, and people moving to Vancouver Island. **The personal disposable income of Victoria residents is projected to grow by six per cent in 2008 and four per cent in 2009.**[3] The Capital region's population is projected to climb in both 2008 and 2009 by just under one per cent as a result of its economic prosperity, mild climate, and popularity as a place to retire. While the forecast population growth is slightly less than what is projected for the province, Victoria net migration is expected to range between 2,500 and 3,500 in each of the next two years. To put into perspective how attractive a place to live Victoria is, the city was ranked the 2nd best place to live in Canada in a recent survey performed by MoneySense magazine.[4]

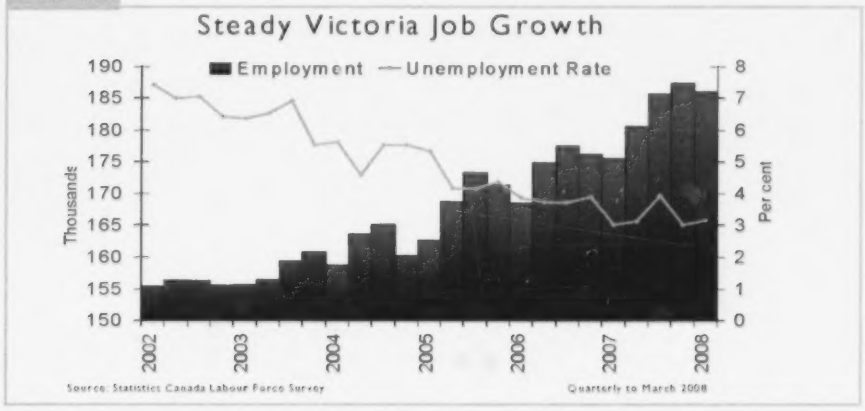
As the region's population has grown, so too has the amount of regional investment and development. At the end of December 2007, the combined value of all major capital projects proposed or under construction in Metro Victoria reached approximately $9 billion.[5] This is a considerable bump up from the total value recorded in mid-2007 ($7.1 billion). Major residential projects include Colwood Corners, Michelle Residential Towers, Olympic View neighbourhood, and the Bear Mountain development. Major non-residential developments include the redevelopment of the Town and Country Shopping Centre, the Vancouver Island Technology park expansion, hospital development (Victoria General and Royal Jubilee), and new buildings at the University of Victoria.

Despite the strong Canadian dollar, the tourism industry is forecast to experience a three per cent increase in total revenues in 2008.[6] This growth is significant as 2007 was a strong year for tourism in the provincial capital which hosted the Titanic exhibit at the Royal B.C. Museum, the FIFA under-20 World Cup, and the BMX Championships. The Capital Region's 2008 tourism growth will be buoyed by an expected strong cruise ship season, and events such as the Victoria Tall Ships Festival which will attract more than 40,000 visitors in June. A 30 per cent increase in the number of cruise ship visits to Ogden Point is scheduled for 2008, bringing an estimated 400,000 passengers to provincial capital.[7]

Mortgage Rates Will Remain Relatively Flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Figure 4



RENTAL MARKET

Victoria Rental Vacancies Will Remain Low Through 2009

After three consecutive years of extremely low vacancy rates in the Victoria rental market, the vacancy rate is expected to edge up to a still tight 0.7 per cent in 2008. Additional rental units will become available as some renters move to their newly completed condominiums. Also, an increase in investor-owned condominiums for rent and secondary suites will increase secondary rental supply.

The number of secondary rental market suites in Victoria has been stimulated by the lack of growth in new purpose-built rental units, and continued demand for rental units. The lack of new purpose-built rental units stems from high building and land costs, and rising home prices. In 2007, construction broke ground on only 28 new purpose-built rental units in the Victoria CMA. While the supply of purpose-built rental units remains stable, rental market demand will continue to be driven by factors such as rising youth employment and in-migration to the area.

One result of the increasing demand for rental units in Victoria is that rents are growing faster than inflation. Average monthly rents for one-bedroom and two-bedroom private apartment units are projected to reach $745 and $935, respectively for 2008. Regardless of bedroom type, dwelling type or municipality, the increase in average rents is significantly less than the appreciation experienced within the homeownership market.

(Footnotes)

1

Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

2

Conference Board of Canada

3

Conference Board of Canada

4

MoneySense Magazine, "Canada 's Best Places To Live" survey, May 2008.

5

B.C. Ministry of Economic Development, B.C. Major Projects Inventory.

6

Tourism Victoria

7

Victoria Times-Columnist, 25 February 2008.

Figure 5

Forecast Summary Victoria CMA Spring 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	7,970	7,500	8,403	7,700	-8.4	7,300	-5.2
MLS® New Listings	10,407	12,280	12,840	14,100	9.8	14,900	5.7
MLS® Average Price ($)	380,897	427,154	466,974	500,000	7.1	520,000	4.0
New Home Market							
Starts:							
Single-Detached	974	928	795	850	6.9	820	-3.5
Multiples	1,084	1,811	1,784	1,675	-6.1	1,455	-13.1
Semi-Detached	94	146	213	185	-13.1	165	-10.8
Row/Townhouse	111	198	158	180	13.9	160	-11.1
Apartments	879	1,467	1,413	1,310	-7.3	1,130	-13.7
Starts - Total	2,058	2,739	2,579	2,275	-11.8	1,845	-18.9
Average Price ($):							
Single-Detached	506,309	552,363	629,278	695,000	10.4	744,000	7.1
Median Price ($):							
Single-Detached	478,950	498,000	564,450	615,000	9.0	655,000	6.5
New Housing Price Index (% chg.)	7.9	3.8	0.5	1.5	-	2.0	-
Rental Market							
October Vacancy Rate (%)	0.5	0.5	0.5	0.6	0.1	0.8	0.2
Two-bedroom Average Rent (October) ($)	837	874	907	950	-	985	-
One-bedroom Average Rent (October) ($)	657	681	716	745	-	770	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-0.40	6.83	-0.12
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-0.53	6.97	-0.04
Annual Employment Level (,000)	169,300	175,200	182,900	188,400	-	193,600	-
Employment Growth (%)	4.5	3.5	4.4	3.0	-	2.8	-
Unemployment rate (%)	4.5	3.7	3.3	3.3	-	3.3	-
Net Migration [1]	2,159	3,241	3,300	3,400	3.0	3,500	2.9

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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